

# Talking to Employees About Annualization

## Why are performance pay awards annualized?

Annualization achieves two statutory requirements of the performance pay system:

1. To bring all employees to a common anniversary date – July 1 (the beginning date of the state's fiscal year)
2. To ensure cost-neutrality for the pot of money assigned for performance awards.

## Could these requirements be achieved in a different way?

Yes. However, the performance pay system Executive Oversight Committee carefully considered numerous ways to achieve these requirements. They chose annualization because it not only achieves these requirements, but it also provides the Joint Budget Committee the added confidence that the award pot will definitely be cost neutral.

## Are all performance awards annualized?

Awards for employees who received an anniversary increase this fiscal year (01-02) must be annualized. Awards for other employees (those in five-year range or range maximum, and new employees) may be annualized, and are decided by each department's performance pay program.

## What does annualization mean?

Annualization is a budgetary term that refers to the yearly value of a pot of money that is only paid out during a portion of the year. For instance, when the state gave anniversary increases, an employee slated to receive a \$2,400 base increase on January 1 would actually get six twelfths or  $\frac{1}{2}$  of that award or \$1,200 dollars during that fiscal year. Thus, the annualized amount of that anniversary increase is \$1,200 for the fiscal year budget.

## How does annualization work with performance pay awards?

An employee with a former anniversary date of January 1 who received an anniversary increase in FY01-02 is slated to get a \$2400 performance award. Beginning on July 1, 2002, and ONLY FOR THIS FIRST YEAR AS ALL EMPLOYEES MOVE TO A COMMON ANNIVERSARY DATE, that employee will get  $\frac{1}{2}$  of the total award annualized or an additional \$100 per month, or \$1,200 total just as under the anniversary system.

## Does this mean that some employees will get the same award but different payouts?

Yes. But the following example illustrates how four employees with different anniversary dates are fairly compensated by annualization.

During FY01-02, Employee A did not receive an anniversary award and therefore will not have her award annualized. Employee B received an anniversary award on October 1, 01. Employee C received an anniversary award on January 1, 02. And Employee D received an anniversary award on March 1, 02.

All four employees are making \$48,000 on June 31, 02 and will get a 5% performance award that amounts to \$2,400. Employee A will get the full award which amounts to \$2,400 annualized or an additional \$200 a month beginning July 1, 02. Employee B will get  $\frac{3}{4}$  of the award which amounts to \$1,800 annualized or \$150 a month beginning July 1, 02. Employee C will get  $\frac{1}{2}$  of the award which amounts to \$1,200 annualized or \$100 a month beginning July 1, 02. Employee D will get  $\frac{1}{4}$  of the award which amounts to \$600 annualized or \$50 a month beginning July 1, 02.

Although this seems "unfair," Employee A had been making \$48,000 in 01 and did not receive a raise. Employee B made \$45,714 until October 01 and then received a \$2,286 raise. Employee C made \$45,714 until January 01, and then received a \$2,286 raise. And Employee D just received a \$2,286 raise in April bringing his salary to \$48,000. It is as "unfair" to not annualize the awards of Employees B, C, D. Otherwise, they would receive an additional benefit based on how close their anniversary date occurs to the end of the fiscal year.

Annualization fairly brings each employee to a common anniversary date.

# Performance Pay System



Department of Personnel & Administration  
**Division of Human Resources**  
1313 Sherman Street, Room 122  
Denver, CO 80203

PH: 303-866-2169  
FAX: 303-866-2334  
Email: [karen.schaefer@state.co.us](mailto:karen.schaefer@state.co.us)

## Talking to Employees About Annualization